

Message Text

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ACTION EA-12

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NSC-05 SS-15 STR-07 OMB-01 CEA-01 L-03 H-02 PA-02
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TO SECSTATE WASHDC PRIORITY 9547
TREASURY/DEP WASHDC PRIORITY
AMEMBASSY BONN
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME

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USEEC

USOECN ALSO FOR EMBASSY

E.O. 11652: N/A
TAGS: EFIN, JA
SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS - JULY 6-12

1. SUMMARY: ECONOMIC PLANNING AGENCY (EPA) AND BANK OF JAPAN (BOJ) MONTHLY ASSESSMENTS SEE ECONOMIC UPTURN CONTINUING ON TRACK. INTERMINISTERIAL GROUP SET UP TO PROMOTE SPECIAL MEASURES TO CURB PAYMENTS SURPLUS. ISSUANCE OF CERTIFICATES OF DEPOSIT EXPECTED TO WIN APPROVAL BY YEAR-END. MONEY SUPPLY GROWTH FADED IN MAY; BOJ TO MAKE QUARTERLY PROJECTIONS OF M-2 GROWTH BUT DENIES INTENTION OF ADOPTING MONETARY TARGETS. NEW MACHINERY ORDERS WEAKEN IN MAY BUT CAR SALES MAKE STRONG SHOWING IN JUNE. BANKRUPTCIES FALL IN JUNE. END SUMMARY.

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2. THE LATEST MONTHLY REPORTS OF THE EPA AND THE BOJ, RELEASED THIS WEEK, BOTH CHARACTERIZE THE ECONOMY AS SHOWING SIGNS OF A STEADY UPTURN IN ACTIVITY. THE EPA REPORT NOTES THE SLOWER EXPANSION OF INDUSTRIAL PRODUCTION IN APRIL AND MAY BUT CITES THE STRONG REBOUND OF SHIPMENTS IN MAY AS EVIDENCE OF CONTINUED EXPANSION OF DEMAND. EPA ALSO VIEWED THE CONTINUING WORKING DOWN OF INVENTORIES AS

EVIDENCE THAT PRODUCERS ARE REACTING PRUDENTLY TO THE PICKUP IN SALES. IN ADDITION, EPA POINTED OUT THAT, ALTHOUGH THE CURRENT ACCOUNT SURPLUS REMAINS LARGE, IMPORT VOLUME IN MAY WAS UP 13.2 PCT OVER YEAR-EARLIER LEVELS WHILE EXPORT VOLUME HAD INCREASED ONLY 0.6 PCT. IN ITS REPORT, BOJ CITED IMPROVED CONSUMER CONFIDENCE AS EVIDENCE THE UPTURN WAS SOLIDLY BASED. IT CAUTIONED, HOWEVER, THAT RECENT YEN APPRECIATION WOULD UNDERMINE THE COMPETITIVENESS OF JAPANESE EXPORTS AND MIGHT PROVE A MAJOR DRAG ON EXPORTS OF SUCH PRODUCTS AS SYNTHETIC FIBERS, CARS, AND INDUSTRIAL PLANTS.

3. AN INTERMINISTERAL GROUP TO PROMOTE SPECIAL MEASURES TO CURB BALANCE OF PAYMENTS SURPLUS HAS BEEN RECENTLY ESTABLISHED UNDER THE CHAIRMANSHIP OF EPA DIRECTOR GENERAL MIYAZAWA. THE GROUP WILL REVIEW THE PROGRESS OF SURPLUS-CUTTING MEASURES -- PRIMARILY EMERGENCY IMPORTS -- AND ADVISE ADDITIONAL MEASURES IF NECESSARY. AT THE FIRST MEETING, JULY 7, MIYAZAWA PROPOSED EXPANDING THE JAPAN EXIMBANK FOREIGN CURRENCY LENDING FACILITY TO PERMIT FINANCING OF DIRECT INVESTMENTS ABROAD SUCH AS INVESTMENTS IN NATURAL RESOURCES. AT PRESENT THE EXIM FACILITY IS RESTRICTED TO FINANCING OF EMERGENCY IMPORTS. MOF REPORTEDLY GAVE THE MIYAZAWA PROPOSAL A FROSTY RECEPTION. THRU MAY THE EXIMBANK HAD OFFICIALLY COMMITTED ONLY \$100 MIL UNDER THE PROGRAM, WITH ANOTHER \$400 MIL REPORTEDLY UNCLASSIFIED

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NEAR THE FINAL STAGES OF APPROVAL. A SECOND MEETING OF THE GROUP HAS BEEN SCHEDULED FOR TODAY (JULY 12) AND SPECULATION HAS BEGUN THAT CONSIDERATION WILL BE GIVEN TO FURTHER REDUCTIONS IN INTEREST RATES AND EXTENSION OF MATURITIES ON THE EXIM FOREIGN CURRENCY LOAN PROGRAM.

4. ISSUANCE OF YEN CD'S MOVED A STEP CLOSER THIS WEEK. ACCORDING TO PRESS ACCOUNTS, THE FINANCING SYSTEM RESEARCH COUNCIL, AN ADVISORY PANEL TO THE MINISTER OF FINANCE, RECOMMENDED IN FAVOR OF INTRODUCING CD'S. ALTHOUGH FINAL DECISIONS HAVE NOT BEEN MADE, IT IS EXPECTED THAT MOF WILL PUSH FOR AN EARLY INTRODUCTION, PERHAPS BEFORE THE END OF THE YEAR. LEGAL STATUS OF THE NEW INSTRUMENT IS STILL BEING STUDIED, BUT IT IS EXPECTED TO BE DESIGNED SO AS NOT TO REQUIRE LEGISLATION REVISING THE BANKING LAW. THE FINANCING SYSTEM RESEARCH COUNCIL IS STILL IN THE THROES OF A COMPREHENSIVE STUDY OF REVISION OF THE BANKING LAW AND THAT STUDY IS NOT EXPECTED TO BE COMPLETED UNTIL SPRING OF 1979. AS NOW CONTEMPLATED, THE NEW CD'S (A) WOULD BE SHORT-TERM, I.E., LESS THAN ONE YEAR, (B) BE LARGE DENOMINATION WITH MINIMUM VALUE OF 100-500 MIL YEN, (C) WOULD BE NEGOTIABLE BY ENDORSEMENT OF THE DEPOSITOR, (D)

AND THE INTEREST RATES ON THEM WOULD BE LIBERALIZED IN PRINCIPLE. IT IS EXPECTED THAT CITY BANKS AND REGIONAL BANKS WOULD BE ALLOWED TO ISSUE THE CD'S BUT IT IS STILL A QUESTION WHETHER THE LONG-TERM CREDIT BANKS WILL ALSO BE GRANTED PERMISSION TO DO SO.

5. GROWTH IN MONEY SUPPLY, S.A., WAS ARRESTED IN MAY AFTER ACCELERATING IN PRECEDING TWO MONTHS. IN MAY NARROWLY DEFINED MONEY AND BROADLY DEFINED MONEY BOTH REMAINED VIRTUALLY UNCHANGED FROM THE PRIOR MONTH WHILE BANK LOANS AND DISCOUNTS RECORDED A SMALL DECLINE OF 0.4 PCT. BANK OF JAPAN VIEWS MAY FLATTENED MONEY SUPPLY AS A

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REACTIONARY CORRECTION FOLLOWING UNUSUALLY RAPID ADVANCE IN APRIL AND SEES NO FUNDAMENTAL CHANGE IN TREND OF GRADUALLY EXPANDING MONEY SUPPLY OVER PAST SEVERAL MONTHS.

MONEY AND CREDIT, END OF MONTH, S.A.

- M-1 M-2 M-3 BANK LOANS AND
- (JEI 123) (JEI 126) (N/A) DISCOUNTS (JEI
- 133)

MARCH 58,060 157,458 240,266 109,379
- (1.7) (1.0) (1.3) (1.1)

APRIL 58,810 160,940 245,526 110,730
- (1.3) (2.2) (2.2) (1.2)

MAY 58,873 161,267 246,590 110,408
- (0.1) (0.2) (0.4) (MIN 0.4)

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6. ON JULY 11 BOJ ANNOUNCED THAT HENCEFORTH IT WILL RE-LEASE QUARTERLY PROJECTIONS FOR GROWTH IN M-2 IN THE SUBSEQUENT QUARTER AND RELEASED SUCH A PROJECTION FOR THE CURRENT QUARTER. THE PROJECTIONS WILL BE CALCULATED ON A YEAR-OVER-YEAR BASIS, USING MONTHLY AVERAGE MONEY SUPPLY DATA. IN MAKING THE ANNOUNCEMENT, BOJ EMPHASIZED THAT THE PROJECTIONS WOULD BE SIMPLY ESTIMATES OF THE LIKELY OUTCOME, RATHER THAN POLICY TARGETS AND THAT THIS ACTION WAS NOT TO BE INTERPRETED AS MEANING THE BOJ WAS ADOPTING MONETARY GROWTH TARGETS SUCH AS SEVERAL OTHER COUNTRIES HAVE. FOR THE CURRENT QUARTER M-2 IS PROJECTED TO GROW 11-12 PCT ABOVE THE YEAR-EARLIER LEVEL ABOUT AS RAPIDLY AS IN THE SECOND QUARTER. (THE APRIL INCREASE WAS 11.9 PCT AND IN MAY IT WAS 11.5 PCT, YEAR-OR-YEAR.)

7. NEW MACHINERY ORDERS REMAINED STAGNANT IN MAY. PRIVATE NEW MACHINERY ORDERS, S.A., DECLINED FOR THE SECOND STRAIGHT MONTH IN MAY WHILE ORDERS PLACED BY GOVT AND PUBLIC AGENCIES FELL RAPIDLY, MORE THAN OFFSETTING THE HEALTHY INCREASE IN APRIL.

NEW MACHINERY ORDERS, S.A. (IN BIL YEN; PCT CHANGE FROM PRIOR MONTH IN PAREN)

- PRIVATE ORDERS EXCL. GOVT AND PUBLIC
- SHIPS (JEI 337) ORDERS (JEI 335)

MARCH 350.8 (34.0) 94.4 (MIN 17.5)
APRIL 268.7 (MIN 23.4) 114.6 (17.6)
MAY 264.2 (MIN 1.7) 84.5 (MIN 26.2)

8. NEW CAR REGISTRATIONS, S.A., REBOUNDED RAPIDLY IN JUNE, UP MORE THAN 10 PCT OVER THE PRIOR MONTH'S LEVEL AFTER DECLINES IN PRECEDING TWO MONTHS. FOR APRIL-JUNE QUARTER AS A WHOLE, NEW CAR SALES CONTINUED TO GROW
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RAPIDLY, UP 8.6 PCT, ALTHOUGH THE GAIN WAS A LITTLE LESS THAN THE FIRST QUARTER INCREASE OF 10.3 PCT.

NEW CAR REGISTRATIONS, S.A.,

THOUSAND CARS PCT CHANGE FROM PRIOR MONTH

APRIL 243.9 MIN 9.0

MAY 239.0 MIN 2.0

JUNE 263.2 10.2

9. BANKRUPTCIES, N.S.A., FELL AGAIN IN JUNE. THE TWO PRIVATE RESEARCH ORGANIZATIONS WHICH COLLECT STATISTICS PLACED BANKRUPTCY CASES IN JUNE AT 1,324 - 1,325, N.S.A., DOWN 3 PCT FROM THE PRIOR MONTH'S LEVEL. THE LIABILITIES OF BUSINESS FIRMS DECLARING BANKRUPTCIES DURING THE MONTH ALSO DROPPED BELOW THE PRIOR MONTH'S LEVEL, BY 15 PCT, TO 163 BIL YEN (OR \$810 MIL EQUIVALENT). ON YEAR-OVER-YEAR COMPARISON, THE NUMBER OF BANKRUPTCY CASES DECLINED 13 PCT, REMAINING BELOW THE YEAR-EARLIER LEVEL FOR THE SEVENTH MONTH IN A ROW. MANSFIELD

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